GABRIEL CANADA LTD
(SUB OF THIS U.S. COMPANY)

File

MAREMONT

annual report

1966

Directors and Officers

Howard E. Wolfson
Chairman of the Board of Directors

Arnold H. Maremont
President & Director

Jerome M. Comar
Executive Vice President & Director

Milton A. Wolfson
Senior Vice President

John P. Buck
Vice President & Director
President of International Group

Russell A. Graham
Vice President & Director
President of Textile Machinery Group

David Spear
Vice President
President of Ordnance Group

Henry S. Ishizuka
Vice President, Controller & Director

Richard D. Abelson
Vice President & Director

Bernard Nath
Assistant Secretary & Director
Partner, Sonnenschein Levinson
Carlin Nath & Rosenthal

John P. Hoffmann
Director
Senior Vice President
Continental Illinois National Bank
and Trust Company of Chicago

Frederick W. Straus
Director
Senior Vice President
Dempsey-Tegeler & Co., Inc.

Milton Shapiro
Treasurer

Jean Allard
Secretary and General Counsel

Transfer Agents

American National Bank and
Trust Company of Chicago
LaSalle Street at Washington
Chicago 60690

The Chase Manhattan Bank
Chase Manhattan Plaza
New York 10015

Registrars

Continental Illinois National Bank
and Trust Company of Chicago
231 South LaSalle Street
Chicago 60690

Manufacturers Hanover
Trust Company
40 Wall Street
New York 10015

Stock Listed

New York Stock Exchange (MAR)

Legal Counsel

Sonnenschein Levinson Carlin
Nath & Rosenthal
69 West Washington Street
Chicago 60602

Auditors

Arthur Andersen & Co.
69 West Washington Street
Chicago 60602

Executive Offices

Maremont Building
168 North Michigan Avenue
Chicago 60601
312/263-7676

Annual Meeting

Date: Tuesday, May 2, 1967
at 10:00 a.m.
Place: Shareholders' Room,
Continental Illinois National Bank
and Trust Company of Chicago

ordnance

textile machinery

distribution

international

automotive

highlights

to our shareholders

In 1966 we took major steps to expand in both domestic and world markets, and disposed of two subsidiaries remote from the main thrust of our business . . . Rocket Power, Inc., which makes rocket actuated devices, and Cal-Val Research and Development Corp., which makes vibration control equipment.

World-wide, our sales of automotive parts have grown so rapidly that we have set up an International Group to concentrate on this fast-growing market. In foreign countries, including Canada, our automotive parts sales have grown over 500 per cent between 1956 and 1966 . . . in 1967 should show a substantial gain and amount to over $20-million. We induced John P. Buck, who had been president of the entire Automotive Group, to head up this new Group.

We have attached our Original Equipment Division to the International Group, because the bulk of our sales in all of our foreign operations, including Canada, is original equipment. This, in our judgment, will result in substantial sales gains world-wide for the OEM Division.

It should be remembered, however, that in the United States, original equipment sales are a small percentage of our total automotive sales and that for this reason Maremont Corporation is relatively unaffected by the ups and downs of new car production. The domestic aftermarket for replacement auto parts sold by our Automotive Group continues to expand each year, along with total motor vehicle registrations, because more cars are always produced than are scrapped, even in a recession. And in a recession, more old cars are kept longer and require more parts.

To replace Mr. Buck, we have appointed Charles J. Aschauer, Jr. president of the Automotive Group. He was formerly market-

ing vice president for Mead Johnson Laboratories Division of Mead Johnson and Co., and a principal of McKinsey & Co., management consultants.
Even though sales for the Automotive Group declined slightly in 1966 over 1965, there is every reason to believe, at this point, that in 1967 both sales and profit margins will show an upward trend.

Further diversification of the company's enterprises was accomplished in December 1966 with the acquisition of Chanslor & Lyon Co., Inc., a major West Coast warehouse distributor of automotive parts and accessories. C & L sales have jumped 159 per cent during the past six years, and in 1967 we anticipate that they will show a substantial gain.

C & L will continue its previous management and staff and will be headed by Robert E. Jacobson, who has been with C & L for the past 14 years, as president since 1958 and before that as controller.

In 1966, sales of textile yarn preparatory machinery by our Textile Machinery Group exceeded the record set in 1965 by a substantial margin. We expect 1967 sales to be the second highest in our history, even though it will reveal an almost 10 per cent decline from 1966, incident to a plateau in capital spending by the textile industry. This, of course, should be expected after two unprecedented record high years of investment in new construction and machinery, suspension of the seven percent investment tax credit and tight money.

In 1966, our New England Group operated at full capacity . . . increased sales 64 per cent over 1965 . . . and will in 1967 continue to maintain its 1966 production level. During 1966 this Group received two machine gun contracts totalling over $7-million, as well as an extension of its contract for parts for the M-151 "Mutt" military jeep.

To sum up, many programs have been initiated throughout Maremont which we believe will come to fruition and realization in 1967. On balance, this year should be one of marked improvement in sales and earnings.

Howard E. Wolfson

Howard E. Wolfson Chairman of the Board

Arnold H. Maremont

Arnold H. Maremont President

ordnance

textile machinery

distribution

international

automotive

highlights

	1966	1965
Net sales	$155,303,000	$135,796,000
Income before Federal and foreign income taxes	8,842,000	7,571,000
Per cent to net sales	5.7%	5.6%
Net income for the year	5,242,000	4,571,000
Per cent to net sales	3.4%	3.4%
Earnings per average common share outstanding	2.85	2.43
Dividends per common share	1.00	1.00
Average common shares outstanding	1,584,000	1,579,000

1 *These serrated ranks of half-moon objects are Grizzly brake lining segments ready to be precision ground and drilled, at the Grizzly brake plant in Paulding, Ohio.*

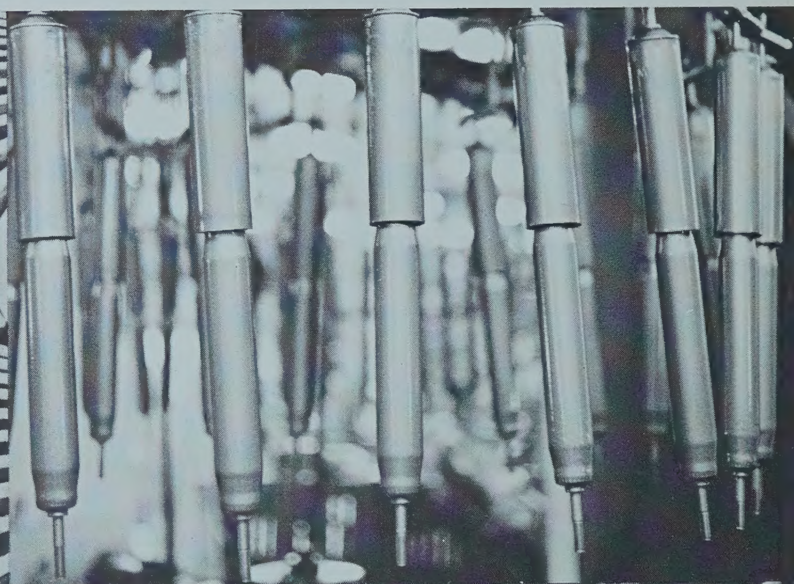
2 *Replacement parts we make are exhaustively road-tested on our fleet of late-model passenger cars and trucks, such as the car shown here.*

3 *Destined for the replacement auto parts market, these Gabriel shock absorbers are carried down a conveyor line through an electrostatic paint spray process in the Maremont/Gabriel modern plant at Pulaski, Tennessee.*

4 *To make sure all Maremont remanufactured parts equal or exceed original equipment part performance, a rigid program of quality control is part of the rebuilding process. Here a remanufactured clutch plate is being precision checked with a dial micrometer.*

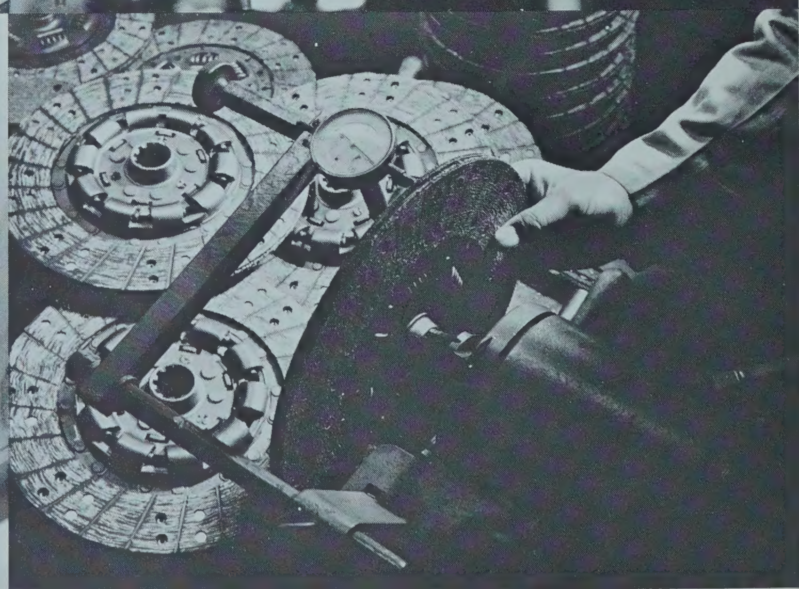
1

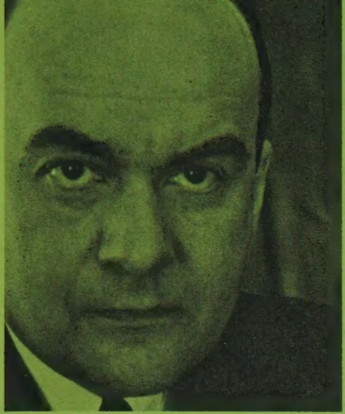
3



2

4





Meet the new president of our Automotive Group. He's Charles J. Aschauer, Jr., and he brings to Maremont an impressive record of performance as a top-flight marketing executive. He comes to us from a position as marketing vice president for Mead Johnson Laboratories Division of Mead Johnson & Company, where from 1962 to 1966 he had increasingly responsible management assignments. Charles Aschauer was associated initially with Mead Johnson as vice president for corporate planning. Prior to that he was a principal of McKinsey and Company, an internationally known firm of management consultants. He holds a B.A. in Business Administration from Northwestern University and an M.A. in International Business Administration from the Centre D'Etudes Industrielles, Geneva, Switzerland.

design for growth

Charles J. Aschauer, Jr.
President, Automotive Group

Last Fall we made a number of planned changes in our Automotive Group which are already demonstrating their positive impact on our aftermarket efforts.

Recognizing the advantages inherent in specialization, we have realigned the Automotive Group into divisions organized along product line groupings.

We now have a Gabriel Division specializing in shock absorber sales . . . a Maremont Muffler Division concentrating on exhaust system sales (mufflers, tail and exhaust pipes) . . . a Remanufactured Parts Division, solely devoted to the sale of our 13 remanufactured parts lines . . . and a Heavy Duty Division involved solely with truck, trailer and bus parts sales. The result . . . more efficient salesmen who are product specialists trained exclusively to know all there is to know about the products they sell and how to help their customers merchandise them . . . all the way down the line from distributor to mechanic to car owner.

Here is a review, by sales division, of what we accomplished in 1966 and our plans for 1967:

GABRIEL DIVISION (SHOCK ABSORBERS)

In 1966, we had a number of very productive nationwide point-of-purchase sales promotions which were very successful in assisting service stations to build sales of our Gabriel brand shock absorbers.

A good example of one of these promotions was our Gabriel 12-pack, which gave the dealer six pair of our Ajustomatic three-way adjustable shock absorbers for the price of five. We plan additional similar promotions for 1967.

MAREMONT MUFFLER DIVISION

Last year, as part of our product consolidation engineering program (a program whose objective is to reduce dealer inventory investment and space by making fewer parts fit more cars), we designed a new service muffler which replaces 28 different original equipment mufflers. This muffler gives the retail

dealer one muffler which fits most popular models of the Ford family of passenger cars.

REMANUFACTURED PARTS DIVISION

Last year, Remanufactured Parts introduced a new line of Grizzly brand replacement disc brakes. Since industry experience to date indicates that disc brakes wear out faster than conventional brakes, we anticipate a rapid increase in our disc brake business beginning in 1967. With disc brakes, our complete Grizzly brand brake line is available to fit all popular makes of American and imported cars on the road today.

OTHER AUTOMOTIVE GROUP DIVISIONS

Our three other sales divisions... Heavy Duty, National Accounts, and Winslow Filter continue to grow.

HEAVY DUTY DIVISION

Formed in 1965 to consolidate sales of over 15,000 line items for trucks, buses and trailers, the Heavy Duty Division was on target for 1966 and should show good gains in 1967. Last year, we more than doubled the Heavy Duty Division sales force and we are now fully staffed and covering the entire country. This Division sells our heavy duty shock absorbers, brake blocks, exhaust systems, oil and fuel filters and the Leland brand line of parts for wheels, axles, "fifth" wheels, air compressors, air brake repair kits and diesel engine replacement parts.

In 1966, we introduced a line of SS (severe service) metallic brake blocks with superior fade resistance under extremely heavy and frequent braking demands, such as called for by logging trucks, mining equipment and heavy off-the-road equipment. Our new SS lining also appeals to fleet owners because of its extra safety margin, particularly where trucks operate in mountainous terrain.

The market for Heavy Duty parts for on-and-off-the-road trucks, trailers and buses is far less cyclical... even more recession resistant than the new motor vehicle market. For example, in the 1960-1961 recession, while manufacturing showed only a one per cent gain and railroad freight activity dropped over one per cent, truck tonnage rose five per cent.

NATIONAL ACCOUNTS

The National Accounts Division services private label customers. A list of these mass marketer customers would read like a blue-chip roster of the nation's retail and mail-order chains and outlets.

Sales by this Division rose very substantially in 1966 and we are budgeting for an even greater rise in sales in this area for 1967.

WINSLOW DIVISION (FILTERS)

We are developing new types of filters for fuel, lubricating oil and other liquids and gases for mobile and stationary engines and for special filtering applications, as well as for automotive. Last year we had sizable orders for diesel fuel filters to protect the engines in a new fleet of Freedom Vessels.

In general, we anticipate sales and earnings improvements for the Automotive Group during 1967 and believe that future years should continue to reflect this upward trend.

The International Group is headed by John P. Buck, for the past 26 years associated with Maremont in top level sales, engineering, production and marketing functions, the latest of which has been, since 1963, as president of the Automotive Group. He is also a corporate vice president and a member of the Board of Directors. He holds an M.B.A. from the University of Chicago.

the world beckons

John Buck
President, International Group

In 1966, we set up an automotive parts International Group, as a separate operation of the Maremont Corporation, to further our expansion into the fast-growing world markets (including Canada) for these products. Maremont's international automotive parts sales have increased over 500 per cent since 1956, and in 1967 should amount to over $20-million.

World markets for automotive parts, both original equipment and replacement, are growing at a faster pace than in the United States, as evidenced by comparative growth rates of automobile registrations. Between 1960 and 1965, the combined increase in automobile registrations in the foreign countries (including Canada) in which we operate increased by 77 per cent, as compared with a 22 per cent rise in the United States.

Since, in most foreign countries, it is far more economical for car producers to make new cars locally, our main thrust for expansion has been the joint venture route . . . to acquire an interest in a healthy local manufacturer of automotive parts. Besides supplying expansion capital to our foreign joint ventures, our main role is to support them with our manufacturing, engineering and product development time and talent.

Here, by country, has been our progress in 1966 and prognosis for 1967:

CANADA

The Canadian-American Trade Pact of 1965, which permits tariff-free shipment of original equipment parts between either country, has been a boon to Gabriel of Canada, Ltd., our joint venture shock absorber facility in Toronto. Shock absorber production in 1966 by our Canadian plant has tripled over 1965. In 1966, we also tripled the plant size, from 35,000 sq. ft. to 120,000 sq. ft. and it looks as though this is just the beginning.

Gabriel of Canada, Ltd. is the major independent producer of shock absorbers in Canada, and makes them for three American and two major foreign car producers.

EUROPE

In 1966, we set up new distribution outlets in France and West Germany as a beginning step in our planned entry into the competitive aftermarket for replacement shock absorbers in these countries. The pattern of replacement auto parts distribution in Europe is becoming quite similar to that in the United States and we anticipate that our success in U. S. replacement shock absorber sales should be repeated ultimately throughout Free Europe.

INDIA

Our joint venture operation in India completed a major expansion program in 1966 and is now the largest shock absorber producer in that country. We make original equipment and replacement shock absorbers for nearly everything on wheels produced in India, from motor scooters, automobiles and trucks, to railroad freight cars.

We are currently expanding sales of our shock absorbers made in India to neighboring middle east and southeast Asian and African countries, with excellent response from these countries and fine prospects for sales growth. We also sell replacement shock absorbers throughout India under the well-known Gabriel brand name.

CENTRAL AND SOUTH AMERICA

In Venezuela our Valencia plant will, in 1967, become more self-sufficient by making more components for original equipment shock absorbers, formerly purchased.

In Mexico sales and profits continued high in 1966 and should show gains in 1967. Our plant in Mexico City makes original equipment shock absorbers sold to United States car manufacturer affiliates in Mexico. This plant has also made excellent progress in penetrating the replacement shock absorber aftermarket in Mexico and will increase this sector of its business in 1967.

In Argentina (a 30 per cent owned venture) we continue to be the major producer of original equipment and replacement shock absorbers.

IN CONCLUSION

Prospects for our International Group are excellent. Passenger car sales outside the United States are predicted to increase at an annual rate of six per cent during the next five years, then taper off to an annual growth rate of 4.5 per cent for the following five years . . . as compared with a 3.4 per cent annual growth rate of car sales in the U.S. expected over the next decade. And by 1975, world sales of new cars should amount to 20-million, or nearly double the predicted 13-million cars to be produced in 1975 in the United States.

Almost all of the major United States auto producers' foreign affiliates have announced early expansion plans in South Africa, Europe and South America, and we expect to grow there right along with them.

Meet Robert E. Jacobson, president of our new C & L Distribution Group. Bob Jacobson has been with the Group for the past 14 years, as president since 1958 and before that as controller. Prior to that he was assistant to the controller of Safeway Stores. During World War II he spent four years in the U.S. Navy Supply Corps (including specialized training at Harvard Graduate School of Business). He holds a B.S. degree from the University of California with majors in accounting and economics and has passed the California CPA examination.

ordnance

textile machinery

distribution

more than logistics

Robert E. Jacobson
President, C & L Distribution Group

Maremont's program of diversification in markets related to its major operations was further advanced last year when it acquired Chanslor & Lyon Co., Inc. in December 1966. A major West Coast warehouse distributor of automotive replacement parts and accessories, C & L was founded in 1904 and today serves auto parts jobbers in eight states from Alaska to Mexico out of 19 large warehouses. C & L sales have, between 1960 and 1966, jumped 159 per cent and will continue to expand substantially in 1967. A major factor in this growth will be our Jobber Plan, which will be instrumental in building sales through auto parts jobbers.

THE C & L JOBBER PLAN

We offer the auto parts jobber a comprehensive Jobber Plan which embraces every facet of his business including computerized inventory control . . . new parts selection . . . ordering . . . accounting . . . credit and collections . . . branch store location . . . sales training . . . and stock adjustment.

The jobber retains complete independence of operation . . . he can accept the full Plan, or any part of it, as he wishes, and at all times retains the right to run his own business as he sees fit.

However, we find most jobbers accept the entire Plan because of the many money-making features it brings during the first year, such as:

100 per cent inventory protection against obsolete and slow-moving parts.

An inventory turnover increase to at least four times a year. Average jobber has only a 2.6 times turnover a year.

A return-on-investment increase of up to 30 per cent before taxes.

Hours saved daily in bookkeeping and posting via our automated inventory control system.

Improved credit and collections . . . always at least 80 per cent current.

Up-to-date information on sales, earnings and profits via our professional, computerized accounting plan such as possessed by very few jobbers, who after all are small businessmen.

Improved sales force efficiency through our Sales Training Manual. We provide forms and information to assist the jobber to utilize his salesmen more efficiently.

COMPUTERIZED INVENTORY CONTROL

The greatest single cause of jobber success . . . or failure . . . has always been inventory control or the lack of it. Yet few jobbers have the time, the resources or the ability to keep inventory investment at a minimum.

With our computer system we have analyzed the sales frequency of each of the thousands of parts we warehouse. We offer a jobber, as part of our Jobber Plan, an inventory which will give him at least 90 per cent coverage for the motor vehicles in his trading area. Under this Plan we guarantee the jobber a fast-moving inventory that will turn over at least *four times annually.* With this fast a turnover the jobber can cut his inventory investment in half and still do the same amount of business . . . which means that the yield from his invested capital is at least doubled. It doesn't take the jobber long to realize this improvement in his profit picture, once he begins to participate in our Jobber Plan.

OPERATIONS

A word about how we operate. The C & L Distribution Group is, like the other four Maremont Groups, run completely autonomously, for maximum efficiency.

We have every reason to believe that sales of Maremont's new C & L Distribution Group will increase at a far faster pace than the growth of the automotive parts aftermarket in the area we serve.

Russell A. Graham has been president of Maremont Corporation's Saco-Lowell Textile Machinery Group since 1962 and has been associated with Maremont for the past 30 years. He is director of Maremont Corporation, Saco-Lowell, Ltd., England and Serra/Saco-Lowell, Spain. Russell Graham is president and a director of the American Textile Machinery Association. Prior to his assignment to Saco-Lowell, he was Maremont's chief engineering executive and had held a number of increasingly responsible executive positions in Maremont product engineering, manufacturing, and plant management. He holds a B.S. in mechanical enginering from Illinois Institute of Technology and an M.B.A. from the University of Chicago.

textile machinery

products for progress

Russell A. Graham
President, Textile Machinery Group

Our sales of textile machinery in 1966 soared to the highest level in the 153-year history of Saco-Lowell and exceeded the 1965 record by a substantial margin.

By far the majority of these sales have been for products introduced since Maremont's acquisition of Saco-Lowell in 1961. These products, our Versamatic two-delivery drawing frames . . . Rovematic roving frames . . . Spinomatic spinning frames and an expanded line of twisters, are the result of our continuous and extensive research, development and engineering programs.

Sales in 1967 should be close to the record level set in 1966 but will reflect a slight downturn after two unprecedented high years of capital spending by the textile industry, suspension of the seven per cent investment tax credit and tight money.

IN THE FUTURE

However, we see an expanding market for Saco-Lowell textile machinery for a number of reasons. First, recent forecasts point out that the demand for textile products in this country will be 25 to 30 per cent greater by 1970 than it was in 1966, primarily due to an increasing per capita consumption of these products by a growing population. Second, as this demand builds up, we expect to see an intensification of the forces which currently affect textile industry profit margins, such as a crucial labor shortage, rising labor costs, competition from new mills in this country which have highly mechanized production facilities and more intense world competition. We believe the only answer to depressed textile industry profit margins to be continued replacement of outmoded, low productivity machinery with new, high-speed equipment which will reduce operating costs substantially.

A word about the new machines introduced in 1966, for which we already have excellent demand by the textile industry . . .

NEW HIGH-SPEED COMBER

Our new high-speed precision comber, the Model CA, offers a 70 per cent increase in production over the most productive comber hitherto available . . . also of our make. The new comber will enable us to retain and enlarge our long held major position in the comber market in this country.

CORE SPINNING

A modification of our mill-proved, high-speed Spinomatic spinning frame was introduced last year which permits core spinning of stretch yarn,today a fast-growing segment of the textile industry.

Stretch yarn is used in stretch pants, swim suits and a host of other garments. We expect the market for stretch fabric to triple in the next four to five years.

NEW MODEL SM SPINNSTER

Our new Model SM Spinnster, introduced in 1966 produces coarse yarn from staple fiber for carpets, cordage and similar end uses.

The type of yarn produced by the SM Spinnster is widely used in man-made fiber tufted carpeting . . . and since the market for tufted carpeting is growing rapidly, we foresee a steady increase in the market for this machine.

FIBERGLAS POTENTIAL

A unique new Fiberglas-reinforced tire developed by Armstrong Rubber Company and Owens-Corning Fiberglas Corporation has recently been introduced. The new tire, according to Armstrong, wears up to twice as long as, but costs only 12 per cent more than, conventional tires. Our interest in this product is the fact that our Plymaster Tube Drive Twisters and Plymaster Twisters are used in the manufacture of Figerglas yarns used in these tires, and any increase in the sale of this new tire would up market potential for this important machinery requirement.

INTERNATIONAL SALES CLIMBING

We have made great strides in our penetration of foreign markets for textile yarn preparatory machinery. For the fourth consecutive year our sales world-wide, outside the U.S.A., have risen 20 per cent.

Our textile machinery plant in Barcelona, Spain (a 50 per cent joint venture) began volume production of our high-speed roving, spinning and drawing frames for international markets in 1966. This machinery meets all of our high quality standards, and all parts are interchangeable with the same equipment made by our plants in this country.

TO SUM UP

The future for Saco-Lowell is extremely bright. Our position in the textile machinery industry is well established and our products, used in most of the new spun yarn mills in this country, continue to set industry standards for high productivity. We are thus in a strong competitive position in a growing domestic market, and our improved position in world markets is evidenced by our ability to compete more successfully each year with foreign machinery manufacturers on their home grounds as well as world-wide.

Our expanded and improved production facilities in both our domestic and Spanish plants have contributed to our ability to meet delivery schedules for our highly sophisticated equipment. Our sales and service organization is fully staffed and at full strength. Our Research and Development and Product Engineering Divisions are backed up by a high level of R & D investment and a manufacturing team which we consider to be the best in the industry.

David Spear was appointed president of our New England (Ordnance) Group in 1966. He has been general manager of the Group since 1962, and has been since 1954 a vice president of Maremont Corporation. He graduated with distinction from Purdue University with a B.S. in chemical engineering and holds an M.B.A. from the University of Chicago's School of Business.

extended capability

David Spear
President, New England Group

Sales for 1966 were up 64 per cent over 1965, and 1966 production levels are expected to be maintained through 1967.

We were awarded a $2-million contract in 1966 for replacement gun barrels for the M-61 and M-61-A1 20 mm Vulcan "Gatling" guns. This contract is very important to us for two reasons. First, it extends our weapons system production capability into the 20 mm range. Heretofore we had made only 7.62 mm weapons systems. Second, this contract marks the first time the M-61 replacement barrels have been made by a commercial supplier; they had been made by the Army's Rock Island (Illinois) Arsenal.

In 1966 we were also awarded a $5.3-million contract for M-60 machine guns, a weapon for which we have been the sole supplier since its introduction in 1959.

Our contract for running gear parts for the M-151 "Mutt" military jeep was extended in 1966, and if all options on this contract are exercised, we will continue to make these parts at least through April 1968.

In our Ordnance Group plant at Saco, Maine, we also make original equipment automotive parts such as oil pumps, universal joints, axles, drive shafts and exhaust control valves.

A WORD ABOUT WEAPONS

The M-60 7.62 mm (30 caliber) machine gun is a standard weapon used by U.S. and NATO forces since we began its production in 1959. This lightweight, rapid-fire weapon is widely used by ground troops, and has helped revolutionize helicopter warfare.

The M-61 Vulcan "Gatling" gun is a six-barrel airborne weapon which has a firing rate of 6,000 rounds-per-minute. In recent years the M-61 has been used on the F111, F4C and F4D military jet fighter aircraft.

GABRIEL ELECTRONICS

Development work on a new four-port rear fed dual-frequency antenna was completed and the unit introduced in 1966. This unit can handle 4,800 voice transmissions simultaneously, takes the place of two separate antennas and their supporting steelwork, and offers a more versatile point-to-point micro-wave relay antenna system to the telephone system communications planner.

THE FUTURE

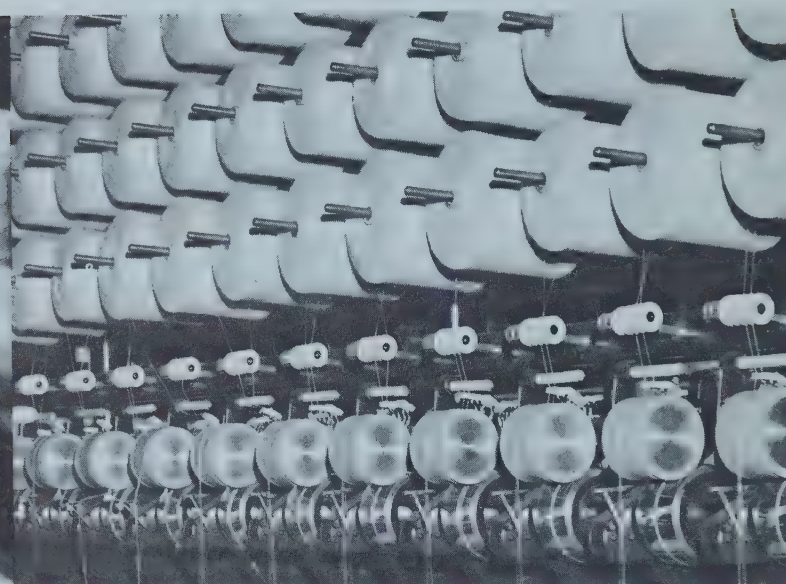
If the peace in Viet Nam we hope for arrives this year, the needs of the military for the weapons and weapon parts we make are such that we would continue at virtually full capacity through 1967, and we anticipate that reduced demand for these weapons can be offset by an increase in production of the high precision, high volume parts we make today, such as automotive exhaust control valves and universal joints.

5 *Here's where high-quality combed* [illegible]

6 [illegible]

7 *For twisting glass fiber and other man-made fiber yarns, this Plymaster Twister features a Saco Lowell developed anti-friction spindle and electromagnetic clutch that automatically stops the spindle should yarn break.*

8 *This jet fighter carries M-61 Vulcan six-barrel "Gatling" guns in the two oval-shaped pods hanging under the wings. Replacement 20 mm barrels for this weapon, which has the fantastic firing rate of 6,000 rounds-per-minute, are made at Maremont's Ordnance Group plant at Saco, Maine.*



finance

MAREMONT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965 (Note 8)
Net sales	$155,302,539	$135,795,994
Costs and expenses:		
Cost of goods sold	117,880,177	101,588,716
Shipping and selling expenses	18,286,528	17,284,020
General and administrative expenses	9,074,880	8,668,457
Interest expense	1,952,558	1,644,714
Other (income) expense, net	(355,315)	(731,871)
Equity in undistributed net income of non-consolidated subsidiaries (Note 1)	(478,845)	(370,181)
Minority shareholders' interest in subsidiaries' net income	100,394	140,993
Total	146,460,377	128,224,848
Income before Federal and foreign income taxes	8,842,162	7,571,146
Provision for Federal and foreign income taxes (Note 7)	3,600,000	3,000,000
Net income for the year (Note 7)	$ 5,242,162	$ 4,571,146
Depreciation charged against income	$ 3,463,810	$ 3,988,015

CONSOLIDATED STATEMENT OF EARNINGS RETAINED IN BUSINESS FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965
Balance, beginning of year	$ 17,531,246	$ 18,773,099
Net income for the year (Note 7)	5,242,162	4,571,146
	22,773,408	23,344,245
Deduct:		
Cash dividends—		
Preferred	727,870	731,097
Common ($1.00 per share)	1,593,101	1,581,902
Non-recurring expenses and losses in connection with plant closings and consolidations, etc., less related Federal income tax credit of $1,740,000	—	3,500,000
	2,320,971	5,812,999
Balance, end of year (Note 2)	$ 20,452,437	$ 17,531,246

The accompanying notes are an integral part of these statements.

finance

MAREMONT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1966 AND 1965

ASSETS	1966	1965
Current Assets:		
Cash	$ 7,878,195	$ 5,412,946
Receivables, less reserves of $405,000 in 1966 and $275,000 in 1965 (Note 1)	19,953,095	10,659,798
Inventories, at the lower of cost (substantially first in, first out) or market	46,625,076	41,592,547
Prepaid expenses	781,971	1,147,435
Total current assets	75,238,337	58,812,726
Notes and accounts receivable due after one year	1,977,427	2,019,971
Investments in non-consolidated subsidiaries, at equity in underlying net assets (Note 1)	6,574,131	5,511,288
Property, plant and equipment, at cost:		
Land, buildings and leasehold improvements	13,782,420	14,502,519
Machinery and equipment, etc.	29,926,151	31,500,083
Less reserves	(24,680,658)	(24,756,926)
	19,027,913	21,245,676
Unamortized patents and leasehold interests	884,516	1,468,202
Other assets	1,836,744	1,612,346
	$105,539,068	$90,670,209

LIABILITIES AND SHAREHOLDERS' EQUITY	1966	1965
Current Liabilities:		
Current maturities of long-term debt (Note 2)	$ 1,281,667	$ 1,166,667
Notes payable to banks	11,400,000	7,000,000
Notes payable to others	1,062,518	—
Accounts payable	11,492,347	9,371,211
Accrued expenses	6,142,305	6,149,425
Federal and foreign income taxes (Note 7)	2,086,233	1,992,010
Total current liabilities	33,465,070	25,679,313
Long-term debt (Note 2)	20,863,000	19,874,666
Deferred Federal income taxes	1,204,098	1,170,894
Minority interest in subsidiaries	1,035,585	800,236
Shareholders' equity:		
Preferred stock, $100 par value, 244,140 shares authorized and 167,207.56 outstanding in 1966 (Notes 2 and 3)	16,720,756	14,803,956
Common stock, $1.00 par value, 4,000,000 shares authorized and 1,636,067 issued in 1966 (Notes 2, 3 and 4)	1,636,067	1,581,902
Paid-in surplus (Note 3)	10,253,803	9,227,996
Earnings retained in business, per accompanying statement (Note 2)	20,452,437	17,531,246
	49,063,063	43,145,100
Less common stock in treasury, at cost—4,000 shares	(91,748)	—
	48,971,315	43,145,100
	$105,539,068	$90,670,209

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1966

1 Acquisition And Non-Consolidated Subsidiaries

During December, 1966, the Company acquired 80% of the outstanding capital stock of Chanslor & Lyon Co., Inc., a distributor of automotive parts, for 53,600 shares of Maremont common stock and 20,956 shares of 6% preferred stock. This transaction has been accounted for as a purchase in the accompanying consolidated financial statements.

Non-consolidated subsidiaries at December 31, 1966, consist of foreign subsidiaries which are not wholly owned, and a wholly owned domestic finance subsidiary, Maremont Acceptance Corporation. As of December 31, 1966, the finance subsidiary had total assets of approximately $13,800,000 (consisting principally of receivables purchased from the parent company), and was indebted to a bank for $10,000,000 at 7%, under short-term notes secured by the receivables.

2 Long-Term Debt And Preferred Shares

Long-Term Debt: Long-term debt consisted of the following at December 31, 1966:

	Current Maturities	*Amounts Due After One Year*
Insurance company notes		
Series A 6%	$ 50,000	$ 7,800,000
Series B 6¼%	250,000	1,550,000
Series C 5%	133,000	256,000
Series D 4¾%	267,000	1,433,500
Series E 5¾%	66,667	435,500
Series F 5¾%	100,000	4,800,000
Series G 6%	115,000	1,155,000
Series H 6%	—	1,000,000
5¾% bank note	100,000	875,000
5¾% subordinated debentures	200,000	1,558,000
	$1,281,667	$20,863,000

The aggregate of long-term debt maturing during each of the next succeeding five years will be: 1967—$1,281,667; 1968—$1,358,667; 1969—$1,348,667; 1970 and 1971—$1,475,667.

The 5¾% subordinated debentures are due June 30, 1974, and as to payment are subordinated to other borrowings. Sinking fund deposits of $200,000 are required for each of the years 1967 to 1969 and $300,000 from 1970 to 1973. The debentures are redeemable, in whole or in part, at the option of the Company at a premium of 1¾% to July 1, 1967, and thereafter at a premium declining ¼% per year.

Under the various loan agreements, Maremont has agreed, among other things:

(1) To maintain consolidated working capital of not less than 150% of consolidated funded indebtedness, all as defined. At December 31, 1966, consolidated working capital was greater than 150% of consolidated funded indebtedness.

(2) Not to incur additional unsecured funded indebtedness unless such indebtedness is subordinated, or unless immediately after such incurrence consolidated funded indebtedness is less than one-third of consolidated net tangible assets, all as defined. At December 31, 1966, consolidated funded indebtedness was in excess of one-third of consolidated net tangible assets, thus requiring noteholder approval for additional non-subordinated long-term borrowings.

(3) Not to declare cash dividends on common shares, if immediately thereafter—
(a) Consolidated current assets would be less than 225% of consolidated current liabilities, all as defined. At December 31, 1966, current assets were $3,365,000 in excess of 225% of current liabilities.
(b) Consolidated net income, from January 1, 1965, plus $3,500,000 would be less than the sum of "restricted payments" (primarily cash dividends, stock repurchases, and payments on debt) since January 1, 1965, all as defined. At December 31, 1966, consolidated net income since January 1, 1965, plus $3,500,000 exceeded the sum of "restricted payments" since January 1, 1965, by $4,593,000.

Preferred Shares: The preferred share agreement (see Note 3) provides, among other things, that the Company will not declare any cash dividends on junior shares (common or junior preferred shares, if any) or purchase, redeem, or retire any junior shares or make any other distribution in respect thereof, if immediately thereafter consolidated net income from January 1, 1963, plus $3,500,000 would be less than the sum of (a) junior, prior, or parity share payments since January 1, 1963 (b) all repayments of principal of unsecured consolidated funded indebtedness required after January 1, 1963, and (c) all payments on account of the purchase, redemption, or retirement of junior preferred shares or prior or parity shares, all as defined. At December 31, 1966, consolidated net income since January 1, 1963, plus $3,500,000 exceeded the sum of the matters discussed in (a) through (c) above, by $3,306,000.

Restriction on Retained Earnings: Under the most restrictive provision of the various agreements referred to above, $17,146,000 of consolidated earnings retained in business (which amounted to $20,452,437 at December 31, 1966) was not available for cash dividends on common shares.

3 Capital Stock

At December 31, 1966, preferred stock (all $100 par value), included:

	Number of Shares		
Series	*Authorized*	*Outstanding*	*Amount*
6% cumulative			
Series of 1960	26,540	22,598	$ 2,259,800
Series of 1966	35,000	20,956	2,095,600
5¾% cumulative	18,400	18,400	1,840,000
4½% cumulative convertible			
Series of 1963	100,000	86,053.56	8,605,356
Second series	19,200	19,200	1,920,000
Undesignated shares	45,000	—	—
	244,140	167,207.56	$16,720,756

Repurchase requirements and privileges of the above preferred stock are summarized as follows:

(1) 6% cumulative, series of 1960—the Company is required to set aside in a sinking fund on June 1 of each year, to redeem preferred shares at par value, an amount which is the lesser of $131,000 or 5% of the Company's net income, as defined, for the preceding year. The sinking fund requirement for 1967 is $131,000. The Company, at its option, may credit against the sinking fund requirements the par value of any shares purchased or redeemed (other than through the sinking fund). At December 31, 1966, $14,700 of such purchases are available for future sinking fund requirements. The Company may redeem the preferred shares, other than through the sinking fund, at $100 plus accrued dividends.

(2) 6% cumulative, series of 1966—these shares are redeemable any time after December 12, 1971, at $100 per share plus accrued dividends.

(3) 5¾% cumulative and 4½% cumulative convertible, second series—these shares are redeemable at $103 to September 30, 1967, and thereafter to September 30, 1969, at prices which decline $1 per share each year, and at $100 per share thereafter, in all cases plus accrued dividends. In addition, on October 1 of each year, 1,600 shares of the 5¾% preferred and 800 shares of the 4½% preferred may be redeemed at $100 per share. This redemption privilege is not cumulative. The Company has represented that it intends, so far as permitted by law and contingent upon due authorization at the time by the Board of Directors, to redeem at least 50% of the shares subject to the noncumulative redemption privilege. The terms of the agreement also provide for other obligations by the Company as described in Note 2.

(4) 4½% cumulative convertible, series of 1963—these shares are redeemable at $103 a share to March 31, 1967, and thereafter to March 31, 1969, at prices which decline $1 per share each year, and at $100 per share thereafter, in all cases plus accrued dividends.

Conversion privileges of the 4½% cumulative convertible preferred are as follows:

(1) Series of 1963—these shares are convertible into common shares at the rate of one common share for $31.41 in par amount of preferred shares. The conversion rate increases to $35 for the five years beginning March 29, 1968, and to $38 thereafter.

(2) Second series—these shares are convertible into common shares at the rate of one common share for $27.25 in par amount of preferred shares. The conversion rate increases to $30.25 for the five years beginning October 1, 1968, and to $33.50 thereafter.

At December 31, 1966, the Company had reserved 344,426.5 common shares for issue on conversion of all of the outstanding 4½% convertible preferred shares.

Warrants outstanding for the purchase of Company stock are as follows:

(1) In connection with certain of its loans, the Company issued to the lenders warrants for the purchase of 70,000 of the Company's common shares, exercisable at any time prior to May 2, 1977. Under the warrant agreement, the shares may be purchased at $32 per share until November 1, 1967; at $34.75 per share thereafter until November 1, 1972; and at $37.50 per share thereafter until May 2, 1977. The Company had reserved 70,000 common shares at December 31, 1966, for issuance under this warrant agreement.

(2) Detachable warrants were issued in connection with the issuance of the Company's 5¾% subordinated debentures (see Note 2). At December 31, 1966, 10,142.6 of 4½% convertible preferred shares, series of 1963, were reserved for issuance on the exercise of these warrants at net prices of $103.60 per share to June 30, 1969 and $127.30 to June 30, 1974. These preferred shares, in turn, are convertible into common shares.

Other matters:

(1) In connection with certain acquisitions, Maremont has agreed to issue to the sellers up to an additional 5,731 common shares if its shares do not reach certain levels of appreciation by October 7, 1967 and up to an additional 53,600 common shares if its shares do not reach certain levels of appreciation by December 12, 1969.

(2) In connection with the 1966 acquisition of Chanslor & Lyon Co., Inc. (see Note 1), the present holders of the remaining 20% of the outstanding Chanslor & Lyon capital stock have an option expiring on December 12, 1969, to exchange their interest for a combination of Maremont common and 6% cumulative preferred in accordance with certain formulae and the Company has a like option to initiate such exchange starting December 12, 1970. To provide for these options and for the 53,600 common shares referred to in (1) above, the Company has reserved 151,000 of its common shares. Since, however, the 6% cumulative preferred will constitute a substantial part of the consideration for the remaining 20%, the number of common shares to be issued in this connection will be substantially less than the number reserved.

(3) The net increases during 1966 in preferred stock ($1,916,800), common stock ($54,165) and paid-in surplus ($1,025,807) are primarily due to the 1966 acquisition of Chanslor & Lyon Co., Inc. under which $2,095,600 par value of preferred and $53,600 par value of common was issued. The difference between these par value amounts and market values at date of purchase was credited to paid-in surplus ($1,018,400).

4 Stock Options

1962 Stock Option Plan

This plan was terminated effective May 19, 1965, except as to options previously granted prior to that date, and no further grants are available thereunder. During 1966, options were exercised for 210 shares and at December 31, 1966, options for 37,150 shares of common stock remained outstanding under which options for 12,350 shares were exercisable.

1964 Stock Option Plan

Under an employees' qualified stock option plan adopted as of July 10, 1964, options are granted at prices representing market value at date of grant. Transactions under this plan during 1966 were as follows:

	Number of Shares	
	Granted	*Exercisable*
Balance, December 31, 1965	15,000	590
Additions	3,600	890
Cancellations	(5,550)	(470)
Balance, December 31, 1966	13,050	1,010

At December 31, 1966, 62,950 shares of common stock were reserved for subsequent granting of options.

On January 5, 1967, the Company offered to grant, at the then current market price, an equivalent number of shares to holders of options under the 1962 and 1964 stock option plans. As a result, the only December 31, 1966 options that remain outstanding at March 17, 1967, are options on 5,400 common shares under the 1962 plan. These remaining options are at prices ranging from $23.16 to $25.41 and at March 17, 1967, options on 1,800 of these shares are exercisable. In connection with the above, new options under the 1964 plan have been granted in 1967 and at March 17, 1967, options on 66,450 common shares are outstanding at an option price of $19 per share (no options are exercisable).

5 Pension Plans

Maremont and its subsidiaries have pension plans in effect for various groups of employees. Aggregate provisions under these plans for 1966 were $1,210,652, and unfunded past service costs at December 31, 1966, amounted to approximately $9,400,000.

6 Commitments And Contingent Liabilities

The Federal excise tax returns for the Company for the years 1958 and following are presently being audited by the Internal Revenue Service with respect to the Federal excise tax liability of the Company on sales of automotive parts by the Company to its wholly owned sales and distribution subsidiary. The Company is unable to predict at this time the amount, if any, of the adjustment which the Internal Revenue Service may make in the Company's Federal excise tax liability. The Company believes that it has correctly computed and paid all Federal excise taxes due.

The Company and its subsidiaries rent certain properties used in their operations under long-term leases which expire at various dates from 1970 to 2004. Current annual rentals under these leases total approximately $1,200,000 and the remaining commitments under the terms of the various leases total approximately $15,100,000.

7 Income Taxes

In both 1966 and 1965 the provision for Federal income taxes was reduced because of loss carry-forwards from previous years. Without these carry-forward adjustments, consolidated net income would have been $5,006,355 for 1966 and $4,457,596 for 1965.

The Federal income tax returns for the Company and certain subsidiaries are presently being reviewed by the Internal Revenue Service. The outcome of the reviews is not presently determinable. The Company believes that the adjustments, if any, will not be material to its consolidated financial position.

8 1965 Consolidated Statement Of Income

Certain reclassifications between net sales and shipping and selling expenses have been made to amounts previously reported for 1965 so as to present 1965 on a comparable basis with 1966.

Auditors' Report

ARTHUR ANDERSEN & CO.

To the Shareholders and Board of Directors,
Maremont Corporation:

We have examined the consolidated balance sheet of MAREMONT CORPORATION (an Illinois Corporation) AND SUBSIDIARIES as of December 31, 1966, and the related consolidated statements of income and earnings retained in business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Chanslor & Lyon Co., Inc., whose assets represent approximately 12 percent of total consolidated assets, but we were furnished with the report of other auditors on such financial statements. We have previously examined and reported on the financial statements of Maremont Corporation and Subsidiaries for the preceding year.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying consolidated balance sheet and consolidated statements of income and earnings retained in business present fairly the financial position of Maremont Corporation and Subsidiaries as of December 31, 1966, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
March 17, 1967.

a diversified company

**Manufacturer of new and remanufactured automotive parts
textile spun yarn preparatory machinery
heavy duty replacement parts for trucks, tractors, trailers, buses
warehouse distributor of a complete line of
automotive parts and accessories to jobber outlets
ordnance materiel and electronic equipment.**

AUTOMOTIVE GROUP

Chicago, Illinois
exhaust systems
research and development
truck/bus air brake and
axle components

Paulding, Ohio
brake linings
clutch facings
friction materials

Muskegon, Michigan
camshafts

Pulaski, Tennessee
shock absorbers

Kendallville, Indiana
oil filters

Lock Haven, Pa.

Fort Worth, Texas

Portland, Oregon

Roanoke, Alabama

City of Industry, California
Remanufactured:
carburetors
generators
alternators
fuel pumps
water pumps
starters
brakes
solenoids
armatures
starter drives
power brake units
clutches

Fort Loramie, Ohio
exhaust system clamps
and hangers

TEXTILE MACHINERY GROUP

Easley, South Carolina

Greenville, South Carolina

Sanford, North Carolina

Jonesboro, North Carolina,
opening and picking machines
cards
draw frames
combers
roving frames
spinning frames
twisters
winders and other equipment
replacement parts

Atlanta, Georgia
twisters

Clemson, South Carolina
textile machinery research
and development

Bolton, England
drafting elements

Barcelona, Spain
spinning and roving frames
other textile machinery

ORDNANCE AND ELECTRONICS GROUP

Saco, Maine
M-60 7-62 mm machine guns
M-61 Vulcan 20 mm machine
gun replacement barrels and
parts for other weapons
components for military vehicles
original equipment
automotive parts
microwave systems
and accessories

C&L DISTRIBUTION GROUP

Warehouse locations

California:

Brisbane
also executive offices

Oakland

Sacramento

Stockton

Fresno

Bakersfield

Los Angeles

Van Nuys

San Diego

Texas:

Odessa

Waco

Fort Worth

Houston

Abilene

Wichita Falls

Oregon:

Portland

Washington:

Seattle

Colorado:

Denver

INTERNATIONAL GROUP

Manufacturing Plants

Bombay, India
shock absorbers

Cape Province, S. Africa
shock absorbers

Toronto, Canada (2)
shock absorbers
and steel tubing

Rosario, Argentina
shock absorbers

Mexico City, Mexico
shock absorbers

Valencia, Venezuela
shock absorbers

Mazamet, France
shock absorbers

AUTOMOTIVE GROUP

Marketing Centers

Fairview, New Jersey

Roanoke, Alabama

Chicago, Illinois

Fort Worth, Texas

Vernon, California

Portland, Oregon
Six large Marketing Center warehouses are each stocked with over 500,000 parts representing Maremont's 16 new and remanufactured automotive replacement parts. Each Marketing Center with its own data processing system,

Statistical supplement available

Please use the 3 x 5 addressed reply card which accompanied this Annual Report to send for your copy of the Statistical Supplement to this Report, or write directly to our Investor Relations Department. The Statistical Supplement contains a wealth of valuable data, including a ten year growth summary, comparative five year sales growth by Group and market facts on the automotive replacement parts aftermarket and the textile machinery industry.

Maremont Corporation annual report 1966